



STATE OF WISCONSIN

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**Department of Employee Trust Funds**  
Internal Audit

AUDIT REPORT

REVIEW OF STALE DATED CHECKS—Phase 1

April, 2004

2004-2A



STATE OF WISCONSIN  
Department of Employee Trust Funds

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SECRETARY

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January 13, 2004

Eric Stanchfield, Secretary  
Department of Employee Trust Funds

Dear Eric,

Subject: Review of Stale Dated Checks

Attached is the Executive/Board report on our audit of stale dated checks. We acknowledge the cooperation of staff in the Division of Trust Finance and Employer Services and the Division of Retirement Services and thank them for the time and effort they spent assisting us. The audit could not have been completed without their assistance.

Respectfully submitted by,

Robert J. Schaefer, CPA  
Director of Internal Audit

Vicki A. Wickliffe  
Auditor-in-Charge

## REVIEW OF STALE DATED CHECKS—Phase 1

**I—INTRODUCTION and AUDIT DESCRIPTION**—During a review requested by staff, we observed that the Department had reissued two stale dated checks to replace checks that had been issued after an annuitant's death. It appeared staff reissued these checks without following up. When we later matched payees on checks reissued during 2002 with the Social Security Administration Death Master File, we found that almost 13 percent were deceased when checks were reissued. Based on these results and our previously expressed concerns over risks and internal controls related to stale dated checks, the Secretary's Office approved giving this audit a high priority.

**II—AUDIT OBJECTIVE** was to determine if controls are adequate for reissuing stale dated checks.

**III—RESULTS and OPINION**—Weak or missing controls for reissuing stale dated checks resulted in: multiple checks to the same annuitant without follow-up to identify problems, checks that stale dated a second time, checks to deceased persons, checks to annuitants with suspended annuities, and checks without adequate documentation/retention of documentation. These control weaknesses, coupled with insufficient segregation of duties, place a single employee in a position that permits inadvertent errors to go undetected, or perpetration and concealment of errors and irregularities while performing normal duties. Even if there is no abuse, the absence of supporting documentation may give the appearance that some transactions were inappropriate.

*In our opinion, controls are very weak and could result in both internal and external fraud.* Since documentation was extremely limited or non-existent in many cases, we cannot be certain that fraud did/did not occur. We did not find evidence of fraud when documentation was available, but the limitations significantly contributed to the complexity of the audit and the time necessary to provide reasonable assurance to management that fraud did not occur.

### IV—AUDIT OBSERVATIONS AND PLANS OF ACTION

**Observation #1:** *The Department needs to develop substantially better internal controls to minimize the risk of inappropriate payment when reissuing stale dated checks. These include written policies and procedures, additional segregation of duties, centralized and uniform processing, requirements for identifying and retaining supporting documentation, follow-up, and appropriate levels of supervisory review.* Plans of Action:

- DETF will reissue checks only when the payee requests them (began in 2003).
- Staff in the Office of Trust Finance and Data Analysis will retain all documentation and send it to the participant's imaged file (began in 2004).
- Staff in the Office of Trust Finance and Data Analysis will give priority to developing written procedures on handling stale dated checks.
- The Department will formalize a policy to further define roles and responsibilities for stale dated checks.

**Observation #2:** *Reducing the number of stale dated checks will lessen the administrative burden for DETF and the Office of State Treasurer in identifying and reissuing stale dated checks.* Plans of Action:

- DETF will continue to encourage electronic deposits and will emphasize this process when a pattern of stale dated checks is apparent
- DETF will cease sending checks payable to deceased persons.

**Observation #3:** *More thorough contacts with participants prior to beginning automatic distributions could reduce the number of stale dated checks and provide better customer service.* Plan of Action: Division of Retirement Services believes that pre-distribution procedures are adequate. It would be acceptable to follow up individually only when checks become stale dated.

**Observation #4:** *Checks for small supplemental Act 11 dividends were made payable to deceased annuitants rather than to their estates as required by IRS regulations.* Plan of Action: The Department will write off the few remaining Act 11 benefits to deceased annuitants under § 40.08 (7) (b).

**V—SECRETARY'S OFFICE COMMENTS**—Recommendations and follow-up actions identified appear appropriate and reasonable. The Secretary's Office will follow progress on implementation of action plans. If other actions are identified that can be cost-effectively implemented, they will be pursued.